

## Message Text

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C O N F I D E N T I A L STATE 265891

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SUBJECT: SECOND PLENUM, US-CZECHOSLOVAK ECONOMIC COUNCIL  
OCTOBER 26-27, 1977

1. SUMMARY : SECOND PLENUM, US-CZECHOSLOVAK ECONOMIC  
COUNCIL, MET IN WASHINGTON OCTOBER 26-27. OVERALL, MEETING  
PROVIDED FORUM FOR AIRING OF CZECHOSLOVAK COMPLAINTS THAT  
US LAWS ONLY MAJOR OBSTACLE TO EXPANSION OF BILATERAL  
TRADE. MEETING DID RESULT IN DISCUSSION OF SEVERAL AREAS  
IN WHICH PROGRESS IS BEING MADE IN INCREASING TRADE AND  
OF FUTURE TRADE POSSIBILITIES AND IN VALUABLE CONTACTS  
BETWEEN US AND CZECHOSLOVAK PARTICIPANTS. AT OPENING  
SESSION, DEPUTY FOREIGN TRADE MINISTER JAKUBEC,  
CZECHOSLOVAK AMBASSADOR JOHANES, AND CZECHOSLOVAK DELEGA-  
TION CHAIRMAN PINKAVA MADE STATEMENTS ON BILATERAL  
COMMERCIAL RELATIONS. EDWARD T. WILSON, EXECUTIVE  
SECRETARY OF THE US SECTION, READ STATEMENT FROM AMBASSADOR  
BYRNE. DURING HIS VISIT, JAKUBEC CALLED ON EUR ASSISTANT  
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SECRETARY VEST AND EB DEPUTY ASSISTANT SECRETARY  
BARRACLOUGH AT STATE AND ON ASSISTANT SECRETARY FOR  
DOMESTIC AND INTERNATIONAL BUSINESS FRANK WEIL  
AT COMMERCE. JAKUBEC ALSO CALLED ON DEPUTY SBECIAL TRADE

REPRESENTATIVE (STR) ALAN WOLF AND MET WITH SENATOR  
RIBICOFF AND CONGRESSMEN VANIK, FRENZEL, MOTT, AND  
GAYDOS. REICH ALSO RECEIVED MEMBERS OF CZECHOSLOVAK  
DELEGATION AND CHAIRMAN OF U.S. SECTION FOR DISCUSSION

OF TRADE PROMOTION AND DEVELOPMENT. FOLLOWING COUNCIL MEETING, SMALL GROUP OF CZECHOSLOVAK DELEGATION VISITED CHICAGO FOR ONE-DAY PROGRAM OF COMMERCIAL PRESENTATIONS. INDIVIDUAL MEMBERS OF DELEGATION THEN VISITED US BUSINESSES ACROSS THE COUNTRY. END SUMMARY.

2. SECOND PLENUM, US-CZECHOSLOVAK ECONOMIC COUNCIL, MET AT US CHAMBER OF COMMERCE, WASHINGTON, OCTOBER 26-27. THE CSSR DELEGATION INCLUDED 23 FOREIGN TRADE OFFICIALS AND REPRESENTATIVES OF VARIOUS BANKS AND FOREIGN TRADE COMPANIES. JAROSLAV PINKAVA AND SPERRY RAND CHAIRMAN J. PAUL LYET LED THE TWO SIDES' SECTIONS.

3. AT THE COUNCIL'S OPENING SESSION, ATTENDED BY OBSERVERS FROM STATE AND COMMERCE, JAKUBEC DESCRIBED US-CZECHOSLOVAK TRADE RELATIONS AS "EXTRAORDINARY" : CZECHOSLOVAKIA HAS NOT HAD MFN FOR 26 YEARS, DOES NOT HAVE ACCESS TO EXIMBANK CREDITS AND GUARANTEES AND ENJOYS NO GUARANTEE THAT CSSR ENTERPRISES WILL BE ABLE TO IMPORT US PRODUCTS THEY WANT OWING TO EXPORT CONTROLS. HE SAID THAT IT WILL BE EXTREMELY DIFFICULT TO OVERCOME THESE PROBLEMS SINCE, IN ESSENCE, THEY ARE POLITICAL IN NATURE. BUT, BOTH SIDES COULD USE THE PRINCIPLES OF COOPERATION OF THE CSCE FINAL ACT AS A BASIS ON WHICH TO  
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RESOLVE THEM.

4. JAKUBEC BRIEFLY REVIEWED THE HISTORY OF NEGOTIATIONS ON THE CLAIMS/GOLD ISSUE, MENTIONING THE AGREEMENTS NEGOTIATED IN EARLY 1960'S AND IN 1974 WHICH WERE REJECTED BY THE US FOR POLITICAL REASONS. HE SAID THAT THE CSSR HAD MADE MAXIMUM CONCESSIONS AND SHOWN MAXIMUM GOODWILL IN THESE NEGOTIATIONS. THE CSSR FACES A DIFFICULT PROBLEM IN TRADING WITH THE US : WHETHER TO TRY TO DEVELOP TRADE IN ITS PRESENT DEFORMED STATE OR TO CONSIDER IT AS A FRINGE MATTER OF LITTLE IMPORTANCE. JAKUBEC SAID HIS PREFERENCE IS TO DO THE UTMOST POSSIBLE AT THE MOMENT, BUT IT'S LIKE PUTTING PATCHES ON AN OLD JACKET : NOTHING NEW. CSSR CUSTOMERS ARE LOSING INTEREST IN THE US MARKET BECAUSE OF THE PROBLEM OF INSECURITY AND A LOW PROBABILITY OF SUCCESS IN ARRANGING DESIRED TRADE. JAPAN AND WEST GERMANY, ON THE OTHER HAND, HAVE SUCCEEDED IN OBTAINING SALES OF MACHINERY AND EQUIPMENT TO THE CSSR. BUT, JAKUBEC SAID, HIS GOVERNMENT IS INTERESTED IN RESOLVING THESE PROBLEMS; HIS PRESENCE AT THE COUNCIL MEETING ATTESTS TO ITS INTEREST.

5. JAKUBEC BRIEFLY OUTLINED THE RECENT HISTORY OF BILATERAL TRADE. IN 1975, THIS TRADE WAS WORTH \$100 MILLION; IN 1976, IT INCREASED TO \$300 MILLION. IN 1977,

THUS FAR, TRADE HAS DECLINED :LOSSES OWING TO LACK OF MFN  
EQUAL AT LEAST \$5-7 MILLION ANNUALLY. THE CSSR HAS  
INCREASED ITS IMPORTS OF MACHINES BY 12 , BUT THE US  
HAS BEEN LEFT OUT OF ITS MARKET. THE POTENTIAL FOR  
GREATER US PARTICIPATION EXISTS, AS INDICATED BY CSSR  
PLANS TO INCREASE FOREIGN TRADE BY 37 BY 1980.

6. JACKUBEC, EXPRESSING "CAUTIOUS OPTIMISM" ABOUT THE  
FUTURE OF BILATERAL TRADE, INDICATED THE CSSR'S INTEREST  
IN CONTINUING A DIALOGUE WITH THE US, AS INDICATED BY  
HIS MEETINGS WITH ADMINISTRATION OFFICIALS AND MEMBERS OF  
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CONGRESS.

7. JOHANES SOUNDED A TOUGHER NOTE IN HIS COUNCIL  
STATEMENT. HE STRESSED EQUALITY, NON-INTERFERENCE IN  
INTERNAL AFFAIRS, THE UNIVERSAL APPLICATION OF MFN, AND  
THE ELIMINATION OF DISCRIMINATION BASED ON POLITICAL OR  
OTHER FACTORS. THE TWO COUNTRIES SHOULD, HE SAID, STRIVE  
FOR PEACE AND THE SOLUTION OF SUCH PROBLEMS AS THE  
SCARCITY OF ENERGY, FOOD, AND THE ENVIRONMENT. DETENTE,  
HE SAID, MEANS GIVING UP COERCION AND FOLLOWING THE  
ROAD OF PEACEFUL COOPERATION IN THE SPIRIT OF THE CSCE  
FINAL ACT WITH ALL COUNTRIES, INCLUDING THE USA. JOHANES  
CITED THE CHNOUPEK/VANCE UNGA MEETING, AT WHICH THE  
FORMER STATED THAT THE GOLD/CLAIMS (HIS LANGUAGE) PROBLEM  
AND MFN HAD NOT BEEN RESOLVED OWING TO US INTRANSIGENCE.  
BUT, CHNOUPEK HAD SAID, THE CSSR IS WILLING TO MOVE  
FORWARD. BOTH CHNOUPEK AND VANCE, JOHANES SAID, HAD  
MENTIONED THE COUNCIL MEETING. THERE ARE MANY OPPORTUNI-  
TIES FOR EXPANDED BILATERAL TRADE.

8. CSSR DELEGATION CHAIRMAN PINKAVA STATED THAT THE TWO  
SIDES' OBJECTIVE SHOULD BE TO FIND COMMON LANGUAGE IN  
EXISTING CONDITIONS TO EXPAND TRADE. HE BRIEFLY REVIEWED  
US/CSSR TRADE PROMOTION EFFORTS.

9. US DELEGATION CHAIRMAN LYET NOTED THAT THIS MEETING  
WAS THE COUNCIL'S FIRST IN THE US AND EMPHASIZED ITS  
OPPORTUNITIES TO REDUCE THE REMAINING BARRIERS TO TRADE.  
HE EXPRESSED HIS PLEASURE AT THE SIZE OF THE CSSR  
DELEGATION AND ITS HIGH RANK. HE NOTED THAT JAKUBEC  
WAS THE HIGHEST RANKING CSSR OFFICIAL TO VISIT THE US IN A  
NUMBER OF YEARS. HE SAID THE COUNCIL'S OBJECTIVE SHOULD BE  
TO ACHIEVE A "POSITIVE AND PROGRESSIVE" SPIRIT IN DIS-  
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CUSSIONS. HE FELT THAT PAST PROBLEMS,IF LEFT TO THE

COUNCIL, COULD EASILY BE SOLVED. BUT, HE NOTED, THAT JOB HAD TO BE LEFT TO OTHERS. HE BRIEFLY OUTLINED WHAT HE THOUGHT THE COUNCIL'S STRATEGY SHOULD BE :(1) TO REINFORCE SUCCESSES ALREADY ACHIEVED; AND (2) TO CONCENTRATE ON WHAT COULD BE DONE--ON THE PRAGMATIC RATHER THAN ON THE HYPOTHETICAL, ON THE SPECIFIC RATHER THAN ON THE GENERAL--AND ON EXISTING AREAS OF ACCORD. IN SOME AREAS, HE NOTED, THIS ACCORD IS OUTSIDE THE RESPONSIBILITY OF THE COUNCIL DELEGATES.

10. LYET MENTIONED THAT A SPECIAL STUDY HAD BEEN PREPARED FOR THE US SECTION OF THE COUNCIL BY PROFESSOR JOSEPH BRADA ON BUSINESS OPPORTUNITIES IN THE CSSR. THIS STUDY INDICATED THAT AN ENORMOUS POTENTIAL FOR TRADE EXISTS IN THE AREAS OF ELECTRONICS, ENGINEERING SERVICES, MINING AND STEEL MILL EQUIPMENT, FOOD PROCESSING EQUIPMENT, AND BOHEMIAN CRYSTAL.

LYET SAID TRADE IN BOTH DIRECTIONS IS MAKING PROGRESS DESPITE A GREAT, UNREALIZED POTENTIAL. HE SAID THAT THE US WAS IN THIRD PLACE AMONG WESTERN EXPORTERS TO THE CSSR IN 1976. LARGE INCREASES IN EXPORTS OF US AGRICULTURAL PRODUCTS HAD OCCURED; HE HOPED FOR EQUALLY LARGE INCREASES IN EXPORTS OF ENGINEERING SECTOR.

11. LYET CITED POSITIVE DEVELOPMENTS :(1) CZECHOSLOVAKIA HAS BEEN BORROWING ON THE EURODOLLAR MARKET WITH US BANK PARTICIPATION; (2) ISSUED NEW GUIDELINES FOR TRADING WITH THE WEST; (3) PASSED LEGISLATION ON THE DEVELOPMENT OF SALES REPRESENTATIVES' OFFICES. ALL THESE DEVELOPMENTS, HE SAID, HAVE BEEN OF INTEREST; HE LOOKS FORWARD TO HEARING THEIR IMPLICATIONS FOR US TRADE. PROGRESSIVE US-CSSR TRADE RELATIONS ARE STILL AT AN EARLY STAGE, BUT SOME PROGRESS HAS BEEN MADE.

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12. LYET READ A MESSAGE TO THE COUNCIL FROM COMMERCE SECRETARY KREPS, WHO STRESSED THE IMPORTANCE THE USG ATTACHES TO THE COUNCIL'S WORK. US COUNCIL SECTION EXECUTIVE SECRETARY ED WILSON READ AMBASSADOR BYRNE'S MESSAGE TO THE COUNCIL.

13. PRESENTATIONS BY CZECHOSLOVAK DELEGATES AT SUBSEQUENT SESSIONS FEATURED THE FAMILIAR MENTION OF THE AMOUNT OF BUSINESS LOST BY CSSR EXPORTERS OWING TO LACK OF MFN. TATRA WORKS REPRESENTATIVE TICHAVSKY REFERRED TO AREAS OF THE AUTOMOTIVE SECTOR IN WHICH THE CSSR SOUGHT THE COOPERATION OF US FIRMS. (COMMERCE WILL REPORT IN SEPTTEL ON THIS INTEREST IN US FIRMS.)

IN RESPONSE TO A QUESTION, LEFT THE

14. JAKUBEC, IN HIS CALL ON COMMERCE'S ASSISTANT SECRETARY WEIL, WHICH INCLUDED BRIEF PARTICIPATION BY UNDER SECRETARY SIDNEY HARMAN, WAS ACCOMPANIED BY AMBASSADOR JOHANES, COMMERCIAL COUNSELOR VALENT, MINISTRY OF FOREIGN TRADE DIRECTOR KELLER, AND ASSISTANT COMMERCIAL ATTACHE SESTAK. BEWT DEPUTY DIRECTOR ED STROH, BEWT OFFICIALS J. MISHELL GEO, GE AND ROGER SEVERANCE, CZECHOSLOVAK DESK OFFICER CHRISTINE LUCYK, AND THE OFFICE OF EXPORT ADMINISTRATION'S LAWRENCE BRADY ALSO PARTICIPATED IN THE MEETING.

15. JAKUBEC REITERATED THE CSSR'S POSITION AS OUTLINED ABOVE AND SOUGHT THE ADMINISTRATION'S VIEWS ON HOW OBSTACLES TO TRADE MIGHT BE REMOVED. JAKUBEC NOTED THE INABILITY OF BUSINESS REPRESENTATIVES TO RESOLVE BASIC PROBLEMS SURROUNDING THE NORMAL DEVELOPMENT OF TRADE. HE ASKED THE COMMERCE OFFICIALS HOW SOLUTIONS TO THESE PROBLEMS MIGHT BE FOUND. HARMON AND WEIL REPLIED THAT  
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THE US WANTS TO INCREASE TRADE, WHICH IS INCREASINGLY IMPORTANT TO THE US ECONOMY, BUT THAT THE US MUST WORK WITHIN THE EXISTING LEGAL FRAMEWORK. BOTH SIDES, THEY ADDED, SHOULD BE CAREFUL SINCE VARIOUS IRRITANTS MAKE DIRECT DISCUSSION OF TRADE ISSUES DIFFICULT.

16. BEWT DEPUTY DIRECTOR STROH NOTED THAT, WHILE THE DEVELOPMENT OF COMMERCIAL RELATIONS BETWEEN US AND CZECHOSLOVAK COMPANIES CAN CONTRIBUTE TO AN IMPROVEMENT IN POLITICAL RELATIONS, PROGRESS IN COMMERCIAL RELATIONS REQUIRES EFFORTS BY BOTH GOVERNMENTS. STROH CITED THE PROBLEM OF ACCESS BY BOTH US BUSINESSMEN AND EMBASSY PRAGUE OFFICIALS TO GOC OFFICES AND THE AVAILABILITY OF LESS THAN ADEQUATE INFORMATION ABOUT THE CSSR ECONOMY. HE EXPLAINED THESE CONDITIONS DO NOT HELP TO INCREASE TRADE. JAKUBEC REPLIED THAT US BUSINESSMEN RECEIVE THE SAME TREATMENT AS DO OTHER FOREIGN BUSINESSMEN AND COUNTERED THAT US COMPANIES RECEIVE BETTER TREATMENT IN THE CSSR THAN DO CSSR FIRMS IN THE US. JAKUBEC ASKED FOR SPECIFIC EXAMPLES. THE COMMERCE OFFICIALS SUGGESTED THAT HE CONDUCT AN OPEN DIALOGUE WITH US COMMERCIAL OFFICIALS IN PRAGUE ON THIS QUESTION. JAKUBEC AGREED TO THE COMMERCE PROPOSAL THAT EMBASSY PRAGUE OFFICIALS AND US BUSINESSMEN CONTACT THE MFT'S US DESK WHENEVER THE EMBASSY OR A US COMPANY ENCOUNTERS DIFFICULTIES OF ACCESS. (WE BELIEVE THE EMBASSY SHOULD FOLLOW UP ON THIS OFFER.) JAKUBEC ADDED THAT HE WOULD INSTRUCT DESK OFFICERS TO HELP BUSINESSMEN DIRECTLY AND TO HELP EMBASSY OFFICERS OBTAIN APPOINTMENTS FOR THEM.

17. ALAN REICH, WHO ADDRESSED THE COUNCIL'S DINNER MEETING AT THE METROPOLITAN CLUB, OCTOBER 26, RECEIVED 12 MEMBERS OF THE CSSR DELEGATION AT COMMERCE ON OCTOBER 27 FOR A DISCUSSION OF THE ROLE, RESOURCES, AND PROGRAMS OF BEWT AND THE PRACTICAL PROBLEMS OF TRADE DEVELOPMENT. US CHAIRMAN LYET PARTICIPATED. THE  
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CZECHOSLOVAKS WELCOMED REICH'S PROPOSAL THAT COMMERCE AND US BUSINESSMEN STUDY COUNTERTRADE PROBLEMS OF US FIRMS IN EASTERN EUROPE.

18. AT THE CONCLUSION OF THE COUNCIL MEETING, MEMBERS OF THE CSSR DELEGATION TRAVELED TO CHICAGO FOR A ONE-DAY PROGRAM ON VARIOUS ASPECTS OF BILATERAL TRADE AND ECONOMIC COOPERATION ACTIVITIES WITH US FIRMS. AFTER CHICAGO, INDIVIDUAL MEMBERS OF THE CZECHOSLOVAK GROUP VISITED VARIOUS COMPANIES THROUGHOUT THE US. (COMMERCE WILL REPORT BY SEPTTEL ANY DETAILS OF THE CHICAGO MEETING AND OTHER COMMERCIAL TALKS IT IS ABLE TO OBTAIN).  
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